

**SUMMARIZED MINUTES
CITY OF SCOTTSDALE AUDIT COMMITTEE
THURSDAY, JANUARY 4, 2007**



**KIVA CONFERENCE ROOM, FIRST FLOOR, CITY HALL
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251**

MEMBERS PRESENT: Committee Chairman Lane
Committee Member Ecton

MEMBERS ABSENT: Committee Member McCullagh

CITY STAFF PRESENT: Cheryl Dreska, City Auditor
Neal Shearer, Assistant City Manager
Ed Gawf, Assistant City Manager
Lisa Murphy, Accounting Director
Ramon Ramirez, Senior Auditor
Gail Crawford, Internal Auditor
Kyla Anderson, Audit Associate
Lisa Blyler, Assistant to Mayor & Council
Debra Baird, Community Services General Manager
Judy Register, Citizen & Neighborhood Resources General Manager
Raun Keagy, Neighborhood Services Director
Malcolm Hankins, Code Enforcement Manager

OTHERS PRESENT: Brian Powell, Scottsdale Tribune

CALL TO ORDER/ROLL CALL

Chairman Lane called the Audit Committee meeting to order at 9:36 a.m. Roll call was taken with Committee Member McCullagh absent.

MINUTES - Approval of December 12, 2006, Committee Meeting Minutes

Committee Member Ecton made a motion to approve the December 12, 2006, minutes. Chairman Lane seconded the motion. The minutes were approved by a unanimous vote of two (2) to zero (0).

GENERAL BUSINESS

Agenda Item 1 - Discuss Draft Audit Report - Controls Over Tracking Code Enforcement Citations and the Maintenance of the City Abatement Fund

Ms. Cheryl Dreska, City Auditor, stated that this was a limited audit confined to the handling of administrative citations in Code Enforcement. Mr. Ramon Ramirez, the auditor who conducted the audit, distributed corrected information and stated that the

audit included a verification of whether the City Abatement Fund is maintained and used in accordance with restrictions set out in City Code.

The audit identified scope limitations, the most significant of which was the lack of ability to identify all citations issued and the lack of ability to identify all citations that should have gone to administrative hearing. The auditors found they could not rely 100 percent on the automated case management system used by Code Enforcement, because information is not entered consistently.

Code Enforcement management has been very proactive in trying to identify areas for improvement. During testing, the audit found a trend of improvement in that the error rate was cut in half from 2005 to 2006. However, some areas requiring additional attention were identified. The departments need comprehensive policies and procedures. Controls are not sufficient to ensure that amounts of unpaid sanctions are correctly calculated for Financial Services. This is currently a labor-intensive manual process. At the time of the audit, no current performance measures were in place. The measures previously in force had just lapsed.

The audit found that the use of the Abatement Fund complied with restrictions. However, the auditors found that all of the sanctions paid were being deposited in the Abatement Fund instead of 50 percent mandated by City Code. Ms. Dreska stated that the issue would be to repay the fund if the fund is used for abatement. If the City collects the amount that was paid to abate something, that money would need to go back into the Abatement Fund, so the process needs continual tracking.

Chairman Lane noted the auditors' recommendation to change the City Code regarding the Abatement Fund. Mr. Ramirez replied that this could instead be addressed through the budgetary process.

Chairman Lane inquired about the balance currently in the Abatement Fund. Mr. Ramirez reported that there was approximately \$200,000 at the end of fieldwork. He noted, however, that the fund was overstated by at least 50 percent. Ms. Dreska pointed out that budgeting has to be addressed whether or not there is an Abatement Fund. If the money is left in the Abatement Fund it is restricted and can only be used for abatement, removing it from the purview of City Council. Also, as restricted revenue, it carries over from year to year and has the potential to grow unpredictably. Mr. Ramirez confirmed to Committee Member Ecton that to date there has been no attempt to determine what the fund should be. Committee Member Ecton commented that there is no easy way to determine this figure.

Chairman Lane asked what had caused inconsistency in fine calculations. Mr. Ramirez noted that there can be discrepancies in how violations are counted on a property. This could be addressed with comprehensive policy and procedures and internal quality reviews. Another area where inconsistencies can arise is daily penalties. The number of days was not always counted in the same manner. Ms. Dreska summarized that they found differences between the practices being followed and the way the Code was written. Mr. Ramirez stated that the Code provides that the daily fine continues to accrue until the fine is paid. However, current department practice is to stop the daily penalty effective the day the violation is corrected.

Chairman Lane noted that documentation of status change was another area of concern. Mr. Ramirez replied that they were working with manually kept hearing logs and identified several instances where they were unable to recover a hard copy of the citation, nor could they find an administrative hearing file. Various reasons for this were discovered. The Code provides that once a citation is issued, an administrative hearing must take place, unless the violation is corrected and the fine paid fifteen days prior to the hearing date. The only way they could tell whether a citation was paid was if a receipt from the City cashier was in the file.

Chairman Lane inquired whether there is any other way to check that a hearing took place. Mr. Ramirez said that the hard copy file would be the only thing showing the disposition. Raun Keagy, Neighborhood Services Director, added that there is a daily log sheet with details used by the hearing officer. Ms. Dreska noted that the auditors were unable to find all the files for the cases listed on the log. In these cases it is impossible to determine the disposition of the case.

Chairman Lane commented that in the billing process it seems that follow-up billing was a concern. Mr. Ramirez described the initial billing process, which consists of the Hearing Officer's decision letter and disposition sheet. Prior to January 2006, the auditors found that no further collection letters were sent if the recipient did not pay on the hearing decision letter. Code Enforcement and Financial Services worked to resolve this.

Responding to a question by Chairman Lane, Lisa Murphy, Accounting Director, estimated that uncollected penalties for 2003/2004 are \$616,000. The uncollected fine amount is \$19,000. Discussion ensued. Mr. Ramirez explained that Code Enforcement has a limit per citation of \$2,500. Staff consulted with the City Attorney's Office on this point. Ms. Murphy stated that as of the end of November 2006, the outstanding balance for 2005 and 2006 sanctions was \$270,000, of which \$107,000 was aged past 120 days.

Committee Member Ecton remarked that this audit could be used as a textbook case. A lot of attention was paid to an area that had received little or no attention for a number of years. Because of public and Council pressure, the focus had been on compliance with little attention to policy, procedures, and records management. The result was sloppy recordkeeping and lack of organization. This happens often in industry and government. He opined that this is a good audit, highlighting many issues that must be taken care of.

Mr. Keagy thanked Committee Member Ecton for his assessment. He pointed out that a number of identified issues are now completed. Other areas will take more coordinated effort and the department has been working with Financial Services. The Abatement Fund may be replaced by a line item in the budget, but this question must be further studied before staff can make a recommendation to the Audit Committee and City Council to amend the Ordinance. In response to Committee Member Ecton's final question, Mr. Keagy stated that staff believe that they can meet the aggressive deadlines that have been set.

Committee Member Ecton commented that some policies need to be reviewed, some procedures need to be adjusted, and some of the forms need to be edited. The department needs to consult with records management to determine how long information should be kept. In his opinion a broader, slower approach is needed.

Chairman Lane asked whether Code Enforcement had been audited previously before the changes in the system. Ms. Dreska replied that no audit had been performed previously. Chairman Lane noted that the audit uncovers some inconsistencies that absolutely must be addressed. He agreed that the major drive to improve neighborhoods had put stress on the old system. Mr. Ed Gawf, Assistant City Manager, stated that Mr. Keagy and Mr. Hankins inherited a system that had been in place for many years and have done a great job in making Code Enforcement a professional operation. Mr. Keagy added that the plan to bring potential ordinance revisions to City Council is a good opportunity to address the intent of the Ordinance.

Chairman Lane asked whether the staff responses in the report appropriately reflect the actions that the auditors are looking for. Mr. Ramirez replied that although the written responses may or may not fully communicate everything that needs to be done, he believes that Code Enforcement and the auditors have come to a full agreement.

In response to a further question by Chairman Lane about condition 20, Mr. Ramirez explained that the auditors found that if violations were corrected and the violator attended the hearing, fines were reduced, sometimes very substantially. This encourages people to go through the administrative hearing rather than promptly paying their fine. Discussion ensued. Mr. Gawf reminded the Committee that Code Enforcement issues a warning so that residents have a few days before a citation is issued to correct the violation without incurring a penalty. He believes that the Administrative Hearing Officer should only reduce fines in special circumstances such as hardship, however, this is a City Council policy decision.

Chairman Lane noted in conclusion that because this is an important audit, fine-tuning the responses and modifying the system in a consistent fashion is important. He questioned whether the older fines and penalties in the aged accounts receivable are still collectible. Ms. Murphy pointed out that 97 percent of the amount is penalties because they have been accumulating. She confirmed that the oldest unpaid accounts are from 2003. Mr. Gawf stated that staff felt the audit was good and appreciated the work done by the auditors.

Mr. Ramirez stated that the Administrative Hearing Officer position now reports to Code Enforcement, which was not the case at the time of the audit. Ms. Dreska commented that this change leads to difficult issues, such as who actually manages the function and how the Administrative Hearing Officer's performance can be fairly evaluated. Mr. Malcolm Hankins, Code Enforcement Manager, added that the department considers that the segregation of duties is important. Ms. Dreska commented that currently no one is evaluating the Hearing Officer's performance. Mr. Gawf has undertaken to establish management oversight.

Mr. Neal Shearer, Assistant City Manager, noted that City management is committed to untangle the confusion about whether the person is a City employee and move towards a professional services contract which will provide an element of independence. Mr. Keagy announced that today is the Administrative Hearing Officer's last day as an official City employee. Ms. Dreska asked who the contract administrator will be. Mr. Keagy replied that the Department of Citizen and Neighborhood Resources as a department will administer the contract. This will probably be handled by someone other than himself or Mr. Hankins.

Chairman Lane expressed thanks to staff for the information they had provided.

Agenda Item 2 - Discuss Status of Current Projects

Noting little change in status since the December meeting, Ms. Dreska offered a verbal report.

a. Cab Connection Program

The report on the Cab Connection program has been drafted and is currently being edited.

b. Cash Handling Audits

The auditor in charge of this project is working on the combined audit reports for the audits performed in 2006.

c. WestWorld Financial Audit

Ms. Dreska reported that the WestWorld Financial Audit is under way. Mr. Ramirez added that staff are engaged in fieldwork.

d. Cultural Council Management Services Agreement

Staff have met with the Downtown Group and are planning to finalize the audit.

e. Streetlight Billing

Ms. Dreska reported that staff received no responses to the RFP that was issued and plan to reevaluate this project.

f. Public Records Request Compliance

Ms. Dreska is proposing moving forward with this audit now.

Ms. Dreska proposed moving forward with audits of the Community Development Block Grant and Section 8 Housing programs. Ms. Murphy noted that the external auditors are expected to conduct an audit in May. Since the external auditors typically perform an audit of Section 8 and CDBG, the internal and external audits should be coordinated so that duplicate audits are not performed.

Ms. Dreska proposed also moving forward with the audit on the controls over the use of outside law firms. The scope would be to see whether the City Attorney's Office is controlling the invoices for those services. Noting that in many cases legal issues are involved, Committee Member Ecton asked Ms. Dreska at what point in the process the auditors would be checking. She replied that work is in the preliminary survey phase. The goal is to determine whether there is a process in place and whether the process is being followed.

Agenda Item 3 - Discuss Development of the 2007 Audit Plan

Ms. Dreska distributed the "Proposed Audit Plan for Calendar Year 2007," describing it as a basic list. She will bring back an entire list at the next meeting. Ms. Dreska outlined the projects the City Manager believes would add value.

Chairman Lane asked who is responsible for the enforcement of compliance issues under development agreements. Ms. Dreska replied that this is expected to lie with the Planning Department.

PUBLIC COMMENTS

None.

COMMITTEE COMMENTS

None.

ADJOURNMENT

With no further business to discuss, Committee Member Ecton made a motion to adjourn the public meeting of the Audit Committee. Chairman Lane seconded the motion and the motion carried. The Audit Committee meeting was adjourned at 10:54 a.m.

Submitted by

Reviewed by

A/V Tronics, Inc.

Cheryl Dreska
City Auditor